Offsets: Making a Difference for California

Q1: What exactly is an Offset and how can it be used in California?

A: An offset represents a real reduction of greenhouse gases (“GHG”). 1 offset equals 1 metric ton of carbon dioxide (or equivalent) not emitted to the atmosphere. Under California’s cap-and-trade program (“Program”), entities may use a small percentage of offsets to comply with their GHG emissions obligations in lieu of allowances.

Q2: What types of projects can create Offsets?

A: Currently, domestic GHG reduction projects that maintain or enhance carbon stocks in forests (and urban forests); capture and destroy biogas generated by livestock manure; destroy ozone-depleting substances (refrigerant gases); reduce methane via changes in rice management practices; and destroy methane escaping from mining are eligible to create offsets under the Program. The California Air Resources Board (ARB) can add additional project types after a lengthy public consultation and review process. Additionally, the Program can link with other jurisdictions and allow offsets from those programs to be used in California. Currently, only Quebec’s program is linked with California.

Q3: How can the public be sure Offsets are what they say they are?

A: Before an offset is issued, projects must be audited by a state-approved independent third-party verifier. The verifier’s audit is then reviewed by an ARB-certified offset project registry. As an additional check on its validity, ARB thoroughly reviews the verifier’s and the registry’s assessment of offset performance (actual GHG reductions) before deciding whether to issue offsets.

Q4: Are Offsets regulated and is there protection against fraud?

A: Yes and yes. Offsets must meet strict regulatory requirements as prescribed by ARB, including extensive monitoring and verification to ensure compliance. Additionally, offset projects are subject to local and federal environmental, health and safety (EHS) regulations. Moreover, offset projects that fail to adhere to EHS regulations, double sell or inflate the volume of offsets are subject to being invalidated by ARB. To date, ARB has invalidated only 0.02% of the nearly 55 million compliance offsets it’s issued, but this action shows it will not hesitate to enforce its invalidation rules.

Q5: What is the purpose of Offsets – why not just require entities to purchase allowances?

A: A regulated cap on emissions, combined with emissions trading, achieves the environmental objective—reduced GHG emissions—at the lowest cost with the most certainty. As a lower-cost alternative to allowances, offsets provide compliance entities some flexibility in meeting their obligations. This reduces overall program costs for California consumers and ratepayers while maintaining the environmental integrity of the program. When designing the program, ARB estimated that without offsets and other complementary policies, costs could be as much as five times higher. These costs would likely be passed on to California ratepayers and consumers.

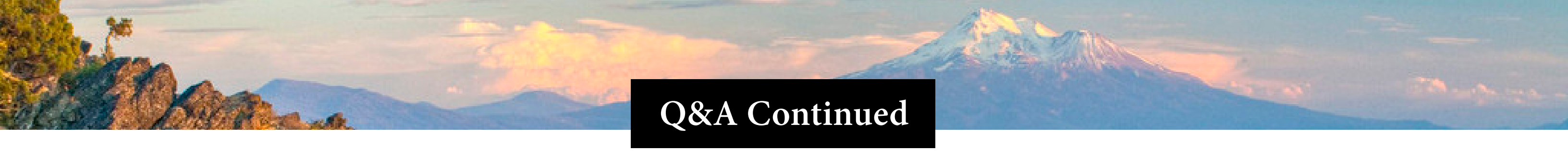
Q6: Other than cost benefits what else does California get out of the Offsets program?

A: Offsets target emission sources outside the cap; reducing emissions from industries not directly regulated by the State. These sources are often found in rural and disadvantaged communities. Reducing emissions from these sources generates positive environmental outcomes for those communities. Offsets have reduced 16 million tons of carbon dioxide emissions from 54 projects located in California in sectors not covered by the cap. California is at the forefront of the emissions reduction market—companies based in California provide offset and GHG services across the U.S. and overseas. Furthermore, a successful Offsets program spurs innovation and additional capital deployment for more and more emission reductions projects around the U.S.

Q7: Don’t Offsets allow large emitters to pollute more, particularly in disadvantaged communities?

A: Offsets can only be used for a small percentage of a facility’s compliance obligation under the Program (up to 8%). The other 92% must be met by purchasing Program allowances or by directly reducing emissions on-site. Cap-and-trade allows emitters to choose the lowest cost option among these three choices. Because the price difference between offsets and allowances is so small, if offsets were not available, emitters would simply purchase more allowances in most instances, until the cost of feasible reduction technologies more closely resembles the cost of an allowance. To date, 22 offset projects located in disadvantaged California communities have been developed because of the Program.

Ad Hoc Group Contact: Jon Costantino, jon@tradesmanadvisors.com



Q&A Continued

Q8: Why aren't Offset projects limited to California?

A: Offsets are an important component of encouraging other jurisdictions to adopt California's climate policies as they expose other parts of the country to the benefits of emission reduction efforts. Over time, these sectors engaging in offset projects will see advancement in standard practices as these innovative technologies become more commonplace. Limiting offsets to California would undercut efforts to encourage a global effort to addressing a global problem, while substantially increasing compliance costs. To date, offset projects outside of California have provided benefit to 18 disadvantaged communities while reducing nearly 3 million metric tons of emissions in those communities.

Q9: What impact would reducing Offset usage have?

A: Scaling back offset usage would substantially raise the price of the Program without achieving any additional on-site emission reductions. It would also remove the incentive to reduce emissions throughout other parts of the state and the nation. Reversing course on offsets would undermine both California's climate leadership—in North America and globally—and the credibility of the Program. In addition, such a major policy change would reduce economic activity in California's disadvantaged communities, while increasing compliance costs to California-based employers and ratepayers.

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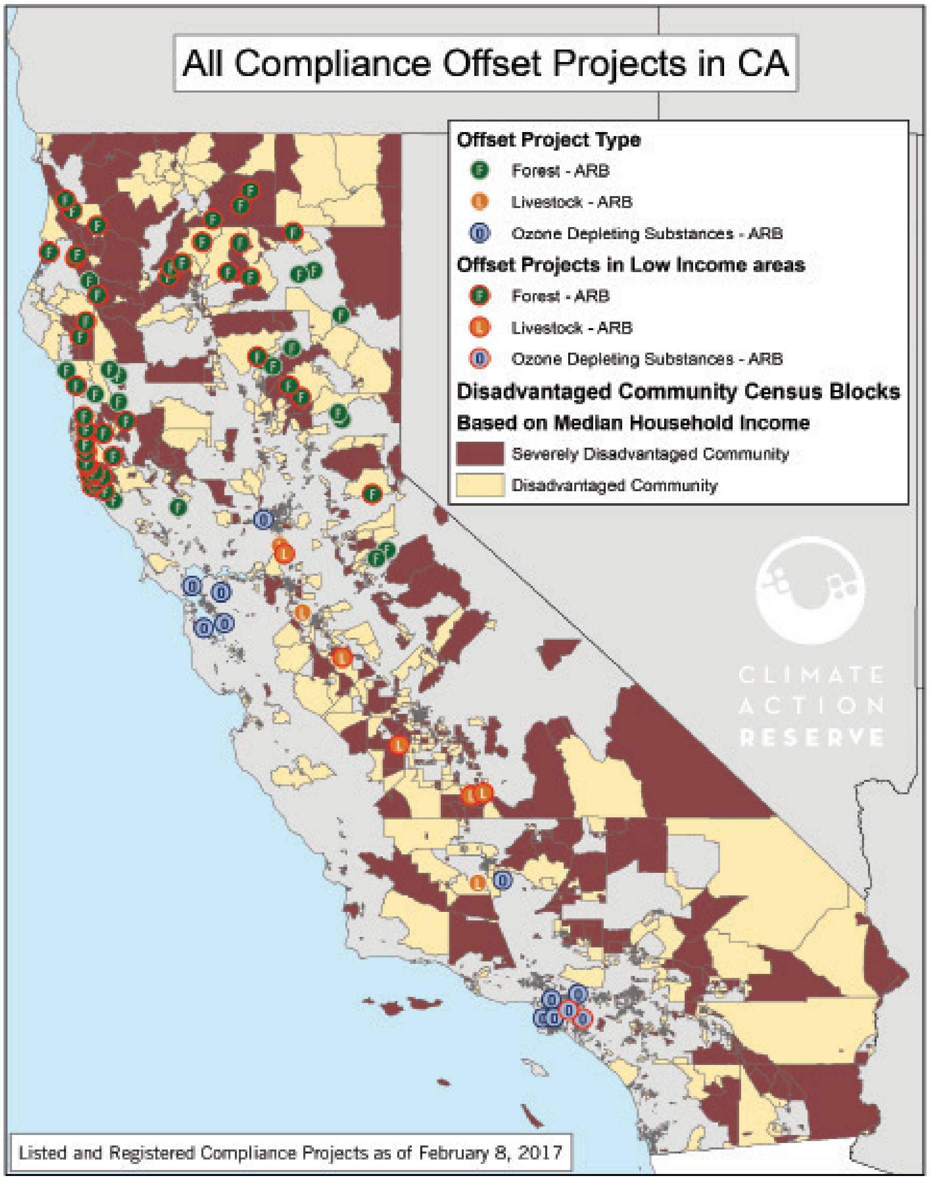
Total Offset Projects under Cap-and-Trade Program



Prepared by an Ad Hoc Group:

A-GAS, Bluesource, Camco Clean Energy, The Climate Trust, ClimeCo Corporation, Diversified Pure Chem, EOS Climate, Finite Carbon, New Forests, Origin Climate, Sindicatum Renewable Energy, Tradewater LLC, & Vessels Coal Gas

Ad Hoc Group Contact: Jon Costantino, jon@tradesmanadvisors.com